

VZCZCXRO8055
OO RUEHAG RUEHBC RUEHDE RUEHKUK RUEHROV
DE RUEHLB #0016/01 0031508
ZNY SSSSS ZZH
O 031508Z JAN 07
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7050
INFO RUEHEE/ARAB LEAGUE COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHMFISS/CDR USCENCOM MACDILL AFB FL PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEHNO/USMISSION USNATO PRIORITY 0698

S E C R E T SECTION 01 OF 04 BEIRUT 000016

SIPDIS

SIPDIS

NSC FOR ABRAMS/DORAN/MARCHESE/HARDING

E.O. 12958: DECL: 01/03/2027
TAGS: [ECON](#) [EFIN](#) [EAID](#) [PREL](#) [LE](#)
SUBJECT: FINANCE MINISTER AZOUR'S WISHPFUL THINKING FOR
PARIS III

REF: 06 BEIRUT 3914

Classified By: Jeffrey Feltman, Ambassador, per 1.4 (b) and (d).

SUMMARY

1. (S) In a January 2 meeting with the Ambassador, Minister of Finance Jihad Azour was less alarmist than Central Bank Governor Riad Salameh (reftel) regarding Lebanon's financial situation in 2007. But, like Salameh, Azour counted on a successful Paris III conference as the essential element in Lebanon's ability to meet this year's financial obligations. He hoped that Paris III would raise a whopping USD 7-9 billion in commitments -- expectations that he emphasized the GOL would not make public -- and he asked for U.S. leadership with key donors, the World Bank, and IMF. Less concerned than Salameh about having donor cash upfront, Azour thought that Paris III would revive private-sector capital flows in sufficient quantities to get through the February financial crunch period. Regarding the potential for an IMF program, Azour was noncommittal, saying that he would discuss all options with the IMF and the Core Group in Paris next week. In terms of the GOL's reform package to be presented at Paris III, Azour predicted that the Lebanese cabinet would readily adopt the program in its 1/4 cabinet session. He said that March 14 politicians are behind it and that it has included ideas promoted elsewhere by Michel Aoun. Azour asked for a bilateral meeting with the U.S. representatives to the Core Group next week in Paris. End summary.

REFORM PLAN ANNOUNCED; AZOUR
HOPES FOR USG BILAT IN PARIS

2. (C) The Ambassador met with Azour in the Grand Serail, where Azour (like many ministers) has moved in order to minimize the risks of assassination, a few hours after Azour and Ministry of Economy and Trade Sami Haddad had joined PM Siniora to present the GOL's reform plan in a media broadcast carried live. (Rather than summarize the reform plan here, we have forwarded the GOL's documents electronically to NEA/ELA for distribution.) Azour said that the cabinet would meet informally on 1/3 in a working session to go over the reform plan in detail. He expected that the cabinet would adopt the reform plan in a formal meeting on 1/4. Cabinet approval of the plan, Azour said, would strengthen the Lebanese presentation at the Core Group meeting in Paris next week. Azour asked for a bilateral meeting with the U.S. Core Group representatives, a request the Ambassador promised to forward back to Washington.

13. (C) With the reform plan now announced to the Lebanese public, Azour said that he, the PM, and Haddad would now launch a major awareness campaign inside Lebanon. Besides meeting with the trade unions and business groups, they will offer to brief all parliamentary blocs separately and appear on Lebanon's many talk shows. A communications strategy -- which Azour promised would be more aggressive and more visible than the lackluster (and largely absent) GOL efforts to publicize its reconstruction efforts -- would use creative means, including sector-based workshops and public consultations, to spread word of the reform plan. Azour noted that he and his colleagues have already used consultants to identify the likely points of contention in the plan, in order to develop a strategy to counter the objections. What is being proposed, Azour waxed eloquently, is "nothing less than coordinated approach needed to modernize the Lebanese economy." Describing initiatives aimed at education, industry, and social affairs, Azour said that "no one can claim we ignored important sectors."

14. (C) Already, Azour claimed, the reformist ministers have scored a victory in getting all March 14 leaders to sign on to the reform plan. While the proposed reforms are consistent with the July 2005 cabinet decree -- and thus given parliamentary approval -- it wasn't so easy to convince former socialists and dispensers-of-patronage like Walid Jumblatt of the need to fight corruption, raise revenues, and accelerate privatization, Azour said. But now March 14 fully

BEIRUT 00000016 002 OF 004

backs the reform plan. (Separately, Walid Jumblatt told us that his concerns had been addressed and that he now fully supports the plan. We understand that Jumblatt had opposed the original idea to switch civil service employment to contractual arrangements, a proposal dropped from the final plan. Another former critic, Minister of Social Affairs Nayla Mouawad, also told us that she is now fully on board with the current plan. We suspect that this unified March 14 support for the plan derives less from the actual reforms than it does from the besieged of unity now felt by March 14 leaders.)

OPPOSITION SHOULDN'T HAVE
ARGUMENTS AGAINST THE PLAN

15. (C) Azour argued that the opposition cannot paint the reform plan as something that is politically attractive for the March 14 bloc. If the March 14 bloc were interested solely in political survival, its leaders would not back a plan that progressively raises VAT to 15 percent, eliminates patronage institutions such as the Council for the South and the Fund for the Displaced, and promises to reduce public employment. This plan is good for Lebanon's long-term interests and not for March 14's short-term political survival. Noting the focus by the March 8-Aoun forces on the "illegitimacy" of the Siniora cabinet, the Ambassador recommended that Azour be prepared for harsh criticism nonetheless.

16. (C) Asked about Michel Aoun's immediate condemnation of the plan, Azour shook his head, noting that much of the plan was consistent with the "flagship reform initiatives" proposed in Aoun's "little orange book" that served as his legislative election platform in 2005. "How does Aoun criticize us for doing exactly what he said needed to be done?" The mild-mannered Azour then launched into a rampage about Aoun's accusations that the Siniora cabinet has done nothing to advance a reform agenda. Listing laws and initiatives proposed or implemented by the Siniora cabinet already, Azour nevertheless accepted the Ambassador's

criticism that, as in reconstruction, the GOL has performed abysmally in terms of getting the word out. As for Hizballah's anticipated reaction, Azour vowed to point out publicly that it was (resigned) Minister of Energy and Water Mohamed Fneish, one of Hizballah's own, that initiated plans for a BOT for power distribution and liberalization of power generation.

IMPORTANCE OF PARIS III:
ESSENTIAL TO UNLEASH PRIVATE CAPITAL

17. (S) The Ambassador asked Azour for his frank assessment of Lebanon's financial situation. Azour tried to paint an optimistic picture, arguing that the GOL had managed to rollover more debt in 2006 -- a year of war -- than is needed in 2007. As for the fact that Lebanon has been purchasing its energy needs through letters of credit that will come due in months, "we'll manage," Azour said. Pressed by the Ambassador, who noted the \$1 billion Eurobond issue maturing in February and the lack of parliamentary approval for the GOL to raise its borrowing ceiling, Azour eventually said that the GOL may have to rely on some special financial engineering and flexibility in cooperation with the Central Bank. Since December, Azour admitted, "the markets have not been supportive" of GOL needs.

18. (S) What is essential, Azour continued, is for Paris III to be seen by the financial markets and private sector as a success for Lebanon. A favorable image of Paris III will unleash more capital, both in terms of financial flows and foreign direct investment, than bilateral donors and the IFIs need to produce. This is exactly what happened after Paris II, Azour argued, with a surge in capital flows coming on the heels of Paris II and dwarfing the USD 2 billion in official commitments. Disagreeing with Governor Salameh's hope for "upfront donations" to get Lebanon through a February crunch period (see reftel), Azour thought that private capital would flow in time for the February commitments, if Paris III is judged a success. Most of the USD 3 billion in foreign currency that Lebanon needs in 2007 can be raised through private markets at reasonable costs, Azour argued, if Paris III produces long-term financial commitments of sufficient

BEIRUT 00000016 003 OF 004

size.

19. (S) Asked what he defined as success, Azour at first talked ambiguously about "sums of considerable magnitude to stimulate private capital." Under considerable prodding, Azour said that Siniora and the economic team calculated that Lebanon needed USD 7-9 billion in official commitments from bilateral and multilateral donors at Paris III. This could be a multi-year commitment, with fund disbursement linked to reform implementation. The Ambassador described that as an extremely ambitious goal. Azour disagreed, citing, inter alia, Turkish and Mexican examples. The political imperative exists for such commitments, he insisted. Nevertheless, Azour asked that the numbers be closely held information. GOL officials will never refer to these numbers publicly, he said, nor even mention them in Core Group sessions, for fear of setting themselves up for failure. If Lebanon gets USD 6.5 billion instead of USD 7 billion, GOL officials want the sum to be seen as something positive, not something below expectations.

IMF PROGRAM: NOT SURE
WHAT SIZE FITS

110. (S) The Ambassador asked Azour's views on an IMF program. Azour said that he was not yet certain himself and looked forward to discussing the possibilities in Paris, both with Core Group members and IMF officials. He stated being inclined to look favorably upon the possibility of "soft reform goals" possible under the IMF's Emergency

Post-Conflict Assistance Program. Asked about Governor Salameh's skepticism about an EPCA program, Azour said that he believes Salameh will oppose anything more rigorous than program monitored by IMF staff. While Salameh has done a brilliant job in keeping the financial markets reassured about Lebanon, Azour said, his reputation will be tarnished considerably once the IMF starts monitoring exactly how Salameh has run the CBL. Salameh, with presidential ambitions, wants to maintain his reputation and will not welcome "the secrets of his magic tricks" being revealed publicly or criticized. "The Governor is not eager for transparency," Salameh said dryly. The Ambassador noted that the USG believes an IMF program is essential, both to help raise capital and to provide discipline. "We'll talk about it in Paris," Azour said (but with an air that he saw an IMF program -- not merely a staff-monitored program -- as inevitable and in Lebanon's interest).

USG HELP NEEDED FOR HEAVY LIFTING

¶11. (S) Given the sums needed for the Lebanese to declare Paris III a success, Azour said that he needed strong USG "help and leadership." Specifically, he hoped the USG would "lean on the World Bank and IMF now, this week," to interpret their rules as flexibly as possible to mobilize as many resources as possible. Secondly, he hoped the USG -- again, this week -- would make "high level phone calls" to potential donors, so that they come to the Core Group preparatory meeting in Paris already inclined toward large contributions.

French President Jacques Chirac is starting to make phone calls, Azour claimed, and "I hope you can do the same." Saying that the USG push is more important for a variety of reasons (including the fact that "everyone knows Chirac is out in a few months"), Azour said U.S. pitches to Germany, Japan, Canada, and the Gulf states are particularly important.

¶12. (C) Also, Azour said, "be aggressive in your support in the Paris meetings." He claimed that U.S. "silence" in the plenary sessions in autumn meetings in Singapore was not interpreted as the sign of endorsement that the USG intended but rather as a sign of reticence. "Be a positive agent for us; display your enthusiasm." At the same time, Azour cautioned, the USG support for Paris III should be aimed at "all of Lebanon, not the Siniora cabinet." Don't, he cautioned, make it appear as though the USG is trying to save the Siniora government. Azour talked at considerable length of the needed "U.S. marketing" to focus on "Lebanon's needs and Lebanon's future," not Siniora's needs and Siniora's future.

COMMENT

BEIRUT 00000016 004 OF 004

¶13. (S) Wow. That was our reaction to Azour's eventual admission that the GOL hopes for USD 7-9 billion in commitments at Paris III. We defer to Washington as to how realistic it is to hope to cobble together a Paris III package that approximates the ambitious numbers Azour has in mind. We also note that the financial situation here appears to be more grave than Azour let on. Minister of Communications Marwan Hamadeh shared with the Ambassador today a secret chart prepared by the Ministry of Finance for Siniora and key ministers, showing (a) that the GOL is broke and surviving day-to-day via telecom revenues and (b) that real GDP in 2006 actually declined by 5 percent, not the 0 percent claimed publicly, with inflation at 7.5 percent. CBL Governor Salameh's more alarmist presentation (reftel) should be seen in this context. We note, too, that Azour came across as more optimistic than Salameh about the speed of private capital responding to a successful Paris III conference: Salameh sees the need for official contributions upfront, while Azour wants to use the promise of eventual

disbursements to mobilize private capital flows. Next week's Core Group preparatory meeting in Paris will be a good opportunity to speak privately with the Lebanese delegation on these issues, and we hope that the U.S. delegation will respond positively to Azour's request for a bilat on the margins.

FELTMAN